

<p align="center">2003-2004 ANNUAL REPORT</p>

SPECIAL REVENUE FUNDS (CONT'D.)

Low and Moderate Income Housing Fund

The Low and Moderate Income Housing Fund accounts for the 20% tax increment monies received from the San José Redevelopment Agency for the purposes of increasing and improving the supply of low- and moderate-income household in the City of San José.

***Low and Moderate
Income Housing
Fund***

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 168,350	\$ 88,190	\$ (80,160)	(47.6%)
<i>Expenditure</i>	184,936	104,376	80,560	43.6%
<i>Fund Balance (est. *)</i>	1,583 *	2,242	659	41.6%

Total revenue received in this Fund in 2003-2004 was significantly less (\$80.2 million) than had been predicted when the budget was prepared over a year ago. The primary reason for reduced revenue was a significant decline in Tax Increment, which dropped almost 15% from the previous year in 2003-2004. Although it was estimated that revenues during the year would be down in 2003-2004, because budget proposals were also being considered by the State that could seriously affect San José Redevelopment Agency funding for affordable housing, the Housing Department strategically reduced borrowing in 2003-2004 through the use of Tax Allocation Bonds until reliable projections of future revenue became available. In addition, loan payoffs on major projects did not occur at the expected level, and revenue from that source was approximately \$4.0 million less than projected. Also, only \$16.2 million of the \$50.0 million Line of Credit was utilized and net bond proceeds of \$27.5 million instead of the budgeted \$64.0 million were issued as a result of the decrease in tax increment.

As a result of the reduction in revenue, expenditures were deliberately held below budgeted levels, with operating expenses (\$80.6 million), Debt Service (\$11.9 million), repayment on Line of Credit (\$12.6 million), and Loans, Grants, and Site Acquisitions (\$59.2 million) all ending the year below budgeted levels. Also the Department limited commitments to new projects until the ability to repay debt could be more accurately forecast.

As a result of the constraints on expenditure implemented throughout the year, the ending fund balance was higher than estimated (\$659,000) due to planned expenditure savings.

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SPECIAL REVENUE FUNDS (CONT'D.)

Low and Moderate Income Housing Fund (Cont'd.)

Subsequent to the adoption of the 2004-2005 Adopted Operating Budget, the San José Redevelopment Agency received its property tax information from the Santa Clara County Tax Assessor. The impact upon the 20% Tax Increment is a reduction of \$4.0 million to this fund. Included in this report are adjustments to bring the Tax Increment estimate down by \$4.0 million, offset by a corresponding increase to the Line of Credit, in order to not affect existing housing projects.